

Summary of EFRAG meetings held in March 2010

On 24-26 March 2010, EFRAG held its monthly meeting and discussed:

- IASB Exposure Draft *Measurement of Liabilities in IAS 37*
- IASB project *Extractive Activities*
- IASB Exposure Draft *Discontinued Operations (Re-exposure of Amendments to IFRS 5)*
- IASB Exposure Draft *Conceptual Framework – The Reporting Entity*
- IASB Exposure Draft *Amendments to IAS 19 Employee Benefits*.

On 25 March 2010, EFRAG met with the European National Standard Setters in EFRAG's Consultative Forum (CFSS) to discuss:

- IASB project *Consolidation*
- IASB project *Revenue Recognition*
- IASB project *Leases*
- IASB project *Financial Instruments*.

Highlights

Endorsement advice

There were no final documents for endorsement discussed in March.

Comment letters to the IASB

EFRAG invited comments on its draft comment letter to the IASB on the Exposure Draft *Conceptual Framework for Financial Reporting: The Reporting Entity*. The draft comment letter is broadly supportive of the proposals, but includes some important concerns. The comments deadline is 10 June 2010 (page 3).

IASB Exposure Draft *Measurement of Liabilities in IAS 37*

On 19 February 2010 the IASB published on its website a working draft of the standard, which will replace IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* for information of constituents. At March 2010 EFRAG meeting, Bob Garnett, an IASB Board member, updated EFRAG on the requirements of the working draft, focusing especially on the recognition criterion for liabilities and the guidance on uncertainty about the existence of an obligation.

In February 2010, EFRAG invited constituents' comments on its draft comment letter in response to the IASB Exposure Draft *Measurement of Liabilities in IAS 37* (the ED). At the March 2010 meeting, EFRAG discussed amendments to the draft comment letter in light of the working draft and tentatively agreed to expand the letter to cover the following issues: →

EFRAG Update is published as a convenience for EFRAG's constituents. All conclusions reported are tentative and may be changed or modified at future meetings.

→

- scope of the standard and interaction of the *Revenue* and the *Provisions* standards in respect of product warranties prior to finalisation of the Revenue project;
- recognition criteria and uncertainty about existence of a present obligation, particularly in respect of non-contractual obligations (e.g., litigation); and
- alternative measurement principles.

The draft comment letter will be amended and made available on EFRAG's website. The revised comments deadline is 7 May 2010.

IASB project *Extractive Activities*

The IASB is working on a comprehensive research project on extractive activities together with a group of standard-setters from Australia, Canada, Norway and South Africa. The objective of the project is to develop an acceptable accounting approach for the issues that are unique to upstream extractive activities. A draft Discussion Paper (DP) reflecting the findings and conclusions of the project team has been prepared for the IASB by representatives from the national standard-setters. This working draft was made available on the IASB website in August 2009. The IASB is expected to publish a request for views on this document in the near future.

At its February meeting, EFRAG discussed the scope, the approach, definitions, asset recognition and measurement chapters and reaffirmed earlier tentative decisions. In summary, EFRAG tentatively supported the scope to the extent that it applies to disclosure requirements. EFRAG did not support the asset recognition proposals, because EFRAG believes that the right place to start would be to consider whether the current IFRSs with interpretations, where appropriate, could be applied – the draft DP did not fully consider this option. If an asset had to be recognised, the measurement proposals of the draft DP would be supported.

At this meeting, EFRAG continued discussing its draft comment letter in response to the forthcoming IASB request for views and considered the disclosure proposals. Based on the discussion, EFRAG members directed the staff to consult the EFRAG User Panel on the disclosure requirements before any decisions are taken. It is expected that such feedback along with a refined draft comment letter will be considered during the EFRAG meeting in May.

IASB Exposure Draft *Discontinued Operations (Re-exposure of Amendments to IFRS 5)*

EFRAG discussed the forthcoming IASB Exposure Draft *Discontinued Operations (Re-exposure of Amendments to IFRS 5)* (the 2010 ED). The 2010 ED is a re-exposure of proposed amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which were issued in September 2008 (the 2008 ED). These proposed amendments to IFRS 5 were part of the larger joint project between the IASB and the FASB on the presentation of financial statements. The 2010 ED is expected to be issued at the end of April 2010 and it is expected to include the following major proposals:

- *Definition of a "discontinued operation"* – following the constituents concerns about the proposal in the 2008 ED to base the revised "converged" definition of a discontinued operation on the definition of an operating segment in IFRS 8 *Operating Segments*, the IASB and the FASB are expected to propose to use the current definition in IFRS 5 as a converged definition. EFRAG has tentatively agreed to support this expected proposal.

→

→

- *Continuing involvement disclosure* – unlike IFRS, the definition of a discontinued operation in U.S. GAAP includes a “continuing involvement” criterion. Although this criterion is not expected to be included in the converged definition, disclosures about “continuing involvement” are expected to be proposed in the 2010 ED. EFRAG tentatively agreed to question the objective and the purpose of these disclosures.
- *Disclosures for significant components, which do not meet the definition of a discontinued operation* – the 2008 ED proposed disclosures for all components of an entity that have been (or will be) disposed of, including those that do not meet the definition of a discontinued operation. This proposal was perceived as onerous by many constituents and had raised significant concerns. The revised proposal in the 2010 ED is expected to limit the scope of the requirements to *significant* components and only require disclosure of the pre-tax profit or loss and, if the component includes a non-controlling interest, the pre-tax profit or loss attributable to the parent. EFRAG members had mixed views in respect of this expected proposal.

EFRAG will continue discussing the 2010 ED in light of developing its draft comment letter at its meeting in May 2010.

IASB Exposure Draft *Conceptual Framework - The Reporting Entity*

EFRAG members finalised the draft comment letter in response to the IASB Exposure Draft *Conceptual Framework for Financial Reporting: The Reporting Entity* (the ED). The draft comment letter is broadly supportive of the proposals, but includes some important concerns:

- whilst EFRAG supports:
 - the broad definition of a reporting entity proposed the ED;
 - the proposal that a *portion* of an entity can qualify as a reporting entity if that portion meets the description and characteristics of a reporting entity; and
 - the proposal not to delay the completion of the *Reporting Entity* chapter of the *Conceptual Framework* until the completion of the standards on consolidation;
- EFRAG does not support the proposal to define control over an entity in the *Reporting Entity* chapter of the *Conceptual Framework*. In EFRAG’s view, control should be defined elsewhere in the *Conceptual Framework* so that it may apply more broadly. The *Reporting Entity* chapter of the *Conceptual Framework* should indicate that the principle of aggregation of economic activities is “control” and refer to the appropriate chapter in the *Conceptual Framework*.

In addition, the draft comment letter raises the following issues, which were not included in the invitation to comment by the IASB:

- EFRAG agrees with the ED that parent-only financial statements can provide useful information. However, the *Conceptual Framework* should not define how those financial statements are issued.
- EFRAG urges the IASB to examine the decision-usefulness of the common control approach and the joint control approach for determining the boundaries of the group reporting entity.
- EFRAG believes that the perspective from which financial statements are presented is critical and should be discussed in the *Conceptual Framework*.

The draft comment letter will be available shortly on EFRAG’s website. The comments deadline is 10 June 2010.

IASB Exposure Draft *Amendments to IAS 19 Employee Benefits*

EFRAG discussed the forthcoming IASB Exposure Draft *Amendments to IAS 19 Employee Benefits* (the ED). It is expected that the ED will propose the immediate recognition of changes in the fair value of the defined benefit obligation and plan assets (i.e., eliminate the existing “corridor approach”) and recognition of the unvested past service costs in the period when the related plan amendment occurs. EFRAG is tentatively supportive of these proposals. In addition, the ED is expected to propose disaggregation of the defined benefit costs into different components in the statement of comprehensive income (or income statement and statement of other comprehensive income) and specify disclosure objectives and requirements.

The ED is expected to be issued in April 2010. EFRAG will continue discussing the ED in light of developing its draft comment letter at its meeting in May 2010.

IASB project *Consolidation*

At the March 2010 CFSS meeting, the EFRAG staff updated the members on the latest developments of the IASB project *Consolidation* focusing on the tentative decisions reached by the IASB subsequent to EFRAG’s comment letter on ED10 *Consolidated Financial Statements* issued in April 2009. No decisions were taken at this meeting.

IASB project *Revenue Recognition*

The IASB staff updated the CFSS members on the latest developments of the IASB project *Revenue Recognition* focusing on the major tentative decisions reached by the IASB subsequent to the Discussion Paper *Preliminary Views on Revenue Recognition in Contracts with Customers*. No decisions were taken at this meeting.

IASB project *Leases*

The IASB staff also updated the CFSS members on the latest developments of the IASB project *Leases* focusing on the lessor accounting issues. No decisions were taken at this meeting.

IASB project *Financial Instruments*

The EFRAG staff updated the CFSS members on the latest developments of the IASB project on financial instruments. No decisions were taken at this meeting.

Future meetings

The next meeting of EFRAG TEG will take place on 5-7 May 2010.